

A decorative background featuring a stylized sun with orange rays rising over green hills, with blue waves at the bottom.

# **Budget Retreat: Financial Update**

February 11, 2022

All Information except forecasts is “as of” 6/30/21

# Agenda

- Understanding the Budget
  - Budget Structure
  - General Fund
  - Debt Update
  - Revenue & Expenditure Forecasts
  - Where the Money Comes From
  - Where the Money Goes
- Pension Fund
- Market Driven Sources of Revenue
- Forecast
- Budget Considerations
- Timeline

# Budget Structure

- Governmental
  - General Fund
  - Special Revenue
  - Debt Service
  - Capital Projects
- Proprietary
  - Enterprise
  - Internal Service
- Trust/Fiduciary Funds

# FY 21/22 Adopted Budget

## Focus Area

▪ General Fund	\$253,558,130
▪ Special Revenue Funds	\$36,477,910
▪ Debt Service Funds	\$23,074,150
▪ Capital Projects Fund	\$45,766,320
▪ Enterprise Funds:	\$64,585,800
▪ Trust Funds:	\$8,177,860
▪ Internal Service Funds:	<u>\$52,693,400</u>
▪ Total Budget	= \$484,333,570

# General Fund Financial Status

## FY 20/21 Fund Balance

Categories	Amounts
Non Spendable	\$ 418,309
Restricted	\$ -
Committed	\$ 51,467,721
Assigned	\$ 35,875,215
Unassigned	\$ 21,140,779
Total	\$ 108,902,024 *

Includes  
20%  
Stabilization  
Account

Includes 5%  
Best  
Practice  
(\$12.7M)

### **REMAIN CAUTIOUSLY OPTIMISTIC BECAUSE:**

- Local Option Sales Tax Revenue Increase
- State Shared Sales Tax Revenue Increase
- COVID Grants Reduced Potential GF \$\$ for Amendments
- COVID Grants Reduced GF Transfer to KAT



\* ACRF Includes Affordable Rental Housing, Historic Preservation, Demo by Neglect & other misc funds

# Last Year's Projected Situation vs Current Status

## During FY 22 Budget Process

\$26M      Projected Unassigned Fund Balance at end of FY 21  
(\$13M)    Held as 5% of General Fund per best practice  
(\$13M)    Planned use of Unassigned Fund Balance for FY 22  
= \$0       "Financially Sound but no flexibility"



## Did better than projected during FY 21

+ \$4.1M   Higher than budgeted State Shared Sales Tax  
+ \$6.6M   Higher than budgeted Local Option Sales Tax  
+ \$8M     Transferred from KAT back to General Fund due to Fed Grant  
+ \$1.2M   Higher than budgeted Alcoholic Beverage Taxes



\$21M      Actual Unassigned Fund at end of FY 21

# Debt

Refinanced \$58.9M of existing debt  
& borrowed \$62.5M for Safety Complex

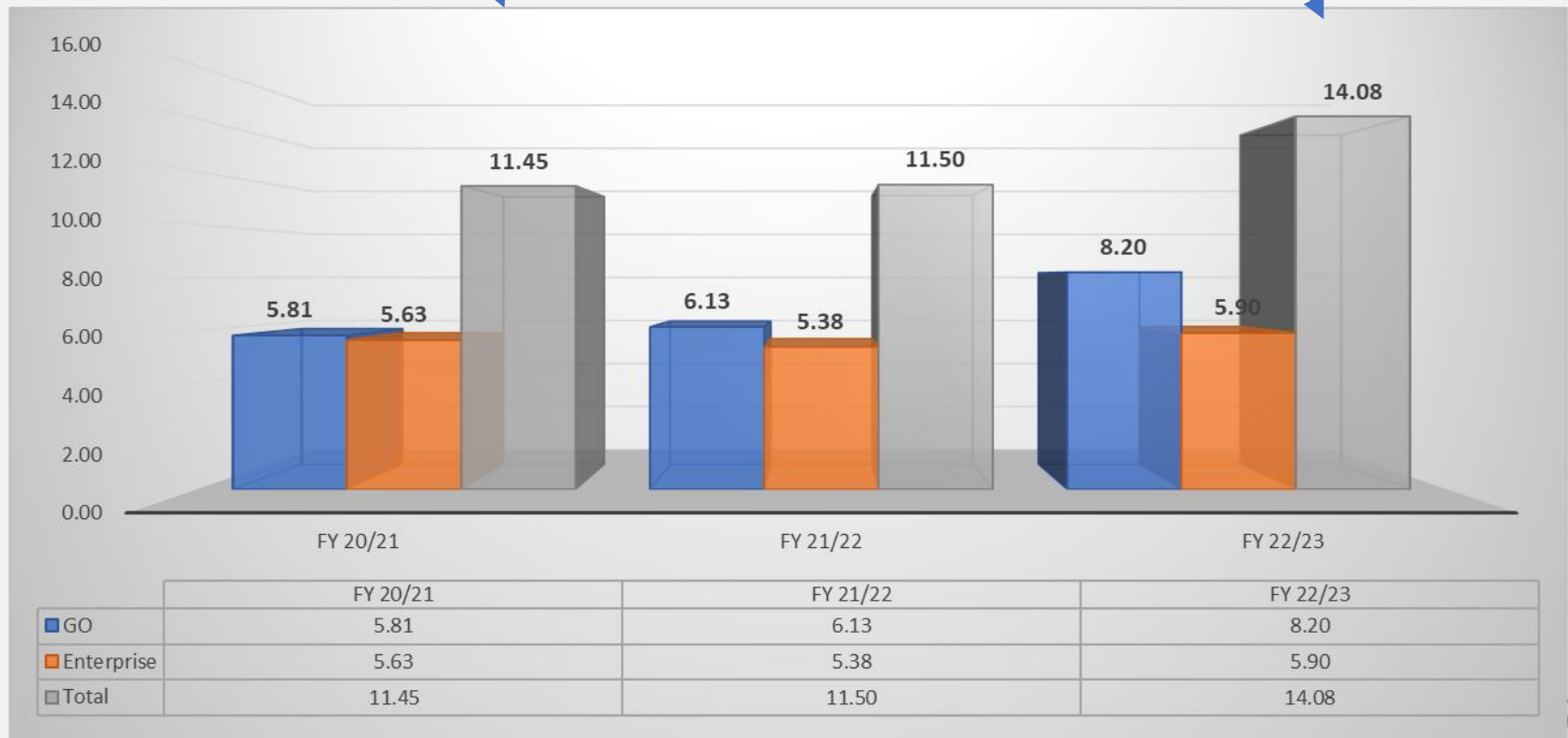
Front Loading Debt Structure Decreases  
Principal Rapidly



# Annual Debt Service Payments

Refinancing & New Debt  
Included Starting Here

Increase from \$11.5M to \$14.1M  
due to Front Loading Debt Structure  
on 20/21 Debt





# Current Bond Ratings

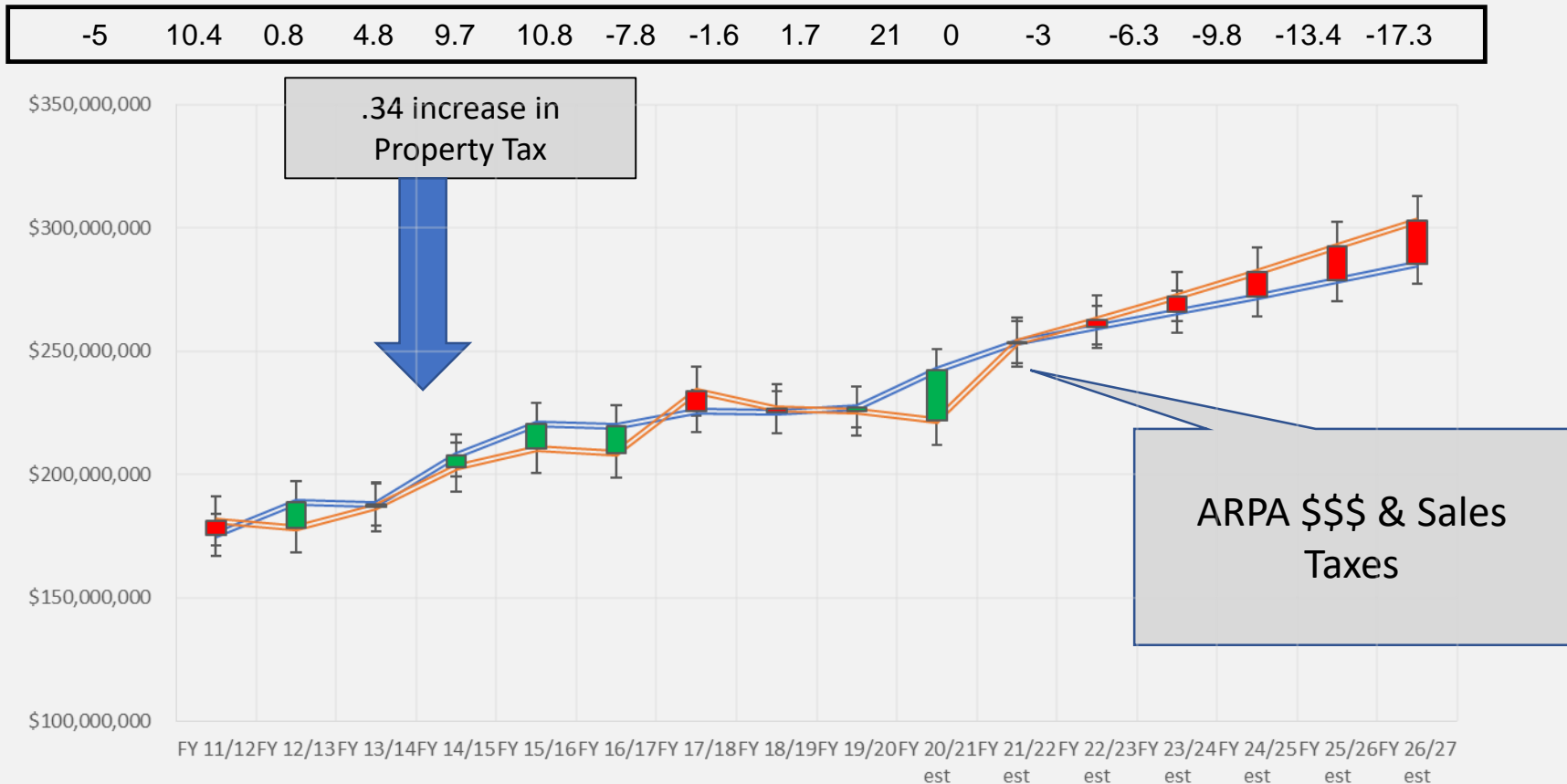
- **Fitch:** **AAA**
- **Moody's** **Aa1**
- **Standard & Poor's** **AA+**

City will be rated  
In February for  
Additional \$18M



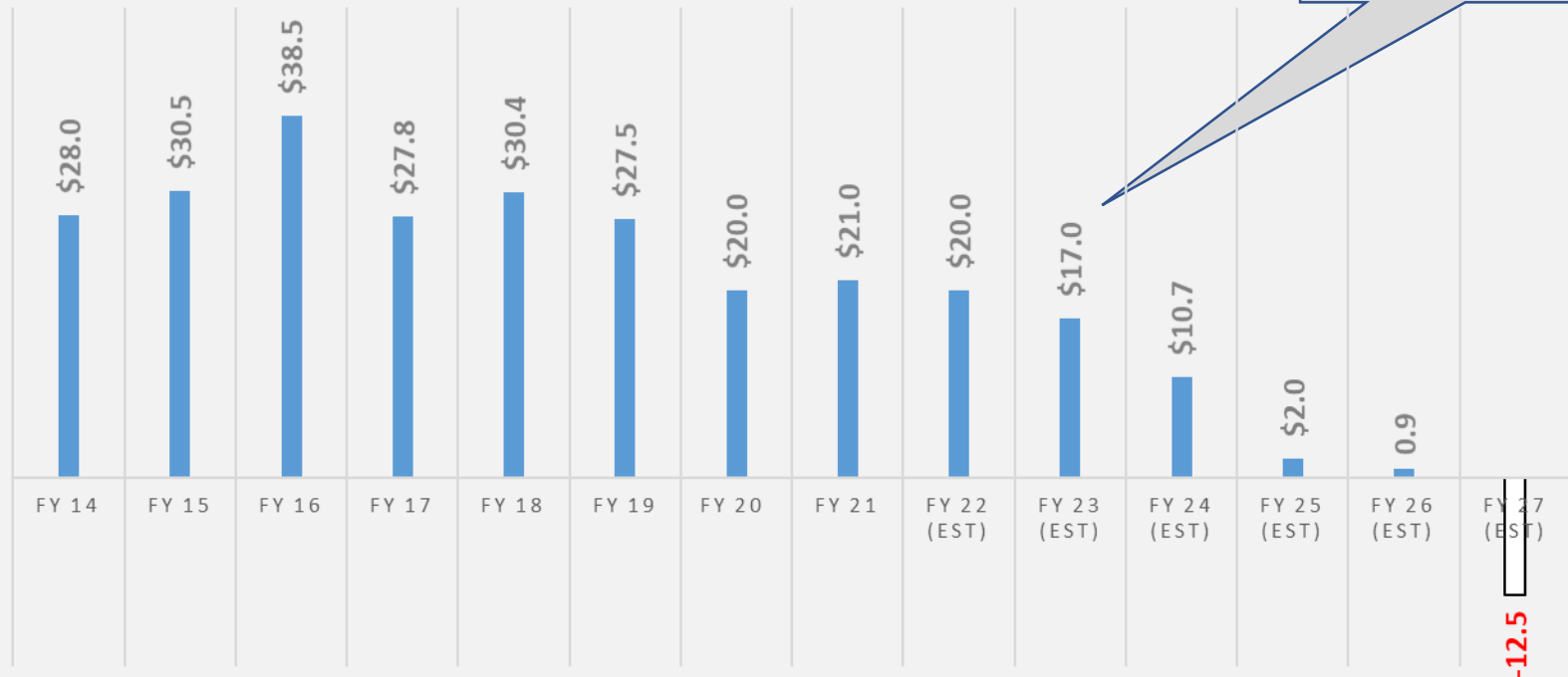
Current Credit/Bond Ratings			
Moody's	Standard & Poor's	Fitch Ratings	Description
Aaa	AAA	AAA	Prime Investment
Aa1, Aa2, Aa3	AA+, AA, AA-	AA+, AA, AA-	High Grade Investment
A1, A2, A3	A+, A, A-	A+, A, A-	Upper medium
Baa1, Baa2, Baa3	BBB+, BBB, BBB-	BB+, BBB, BBB-	Lower Medium

# General Fund Revenue vs Expenditures (actual & projected)



Average annual growth of GF revenue is 2.41% for last 5 FY's  
 Average annual growth of GF expenditures is 3.62% for last 5 FY's  
 Gap between revenue & expenditure growth is 1.21%  
 Does not account for projected inflation

## UNASSIGNED FUND BALANCE

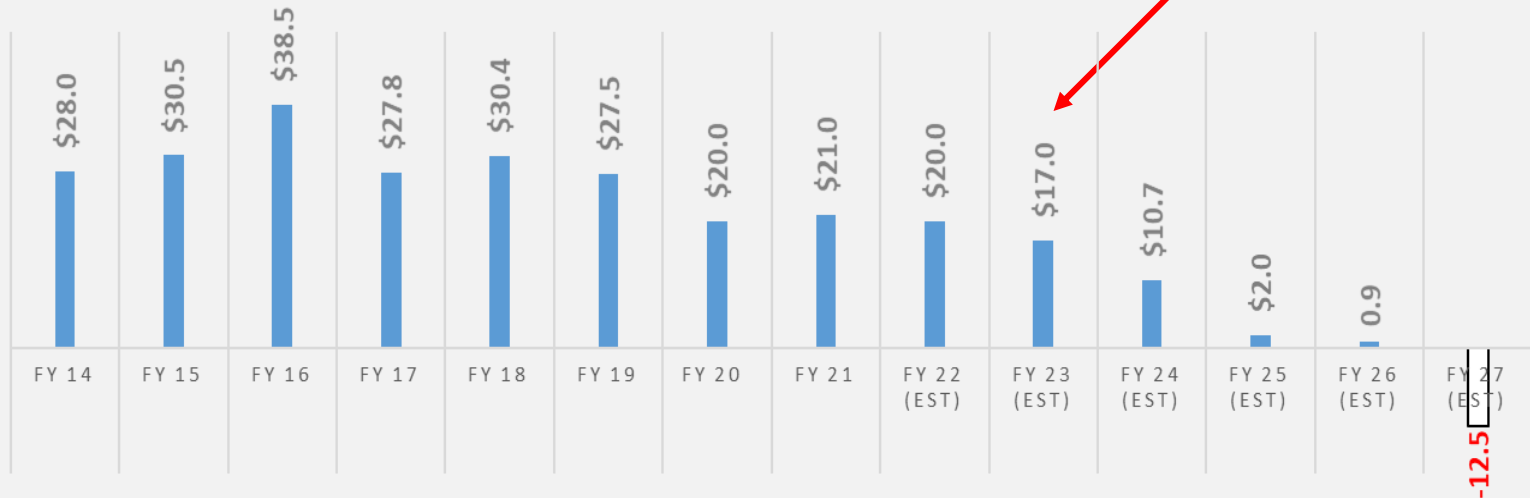
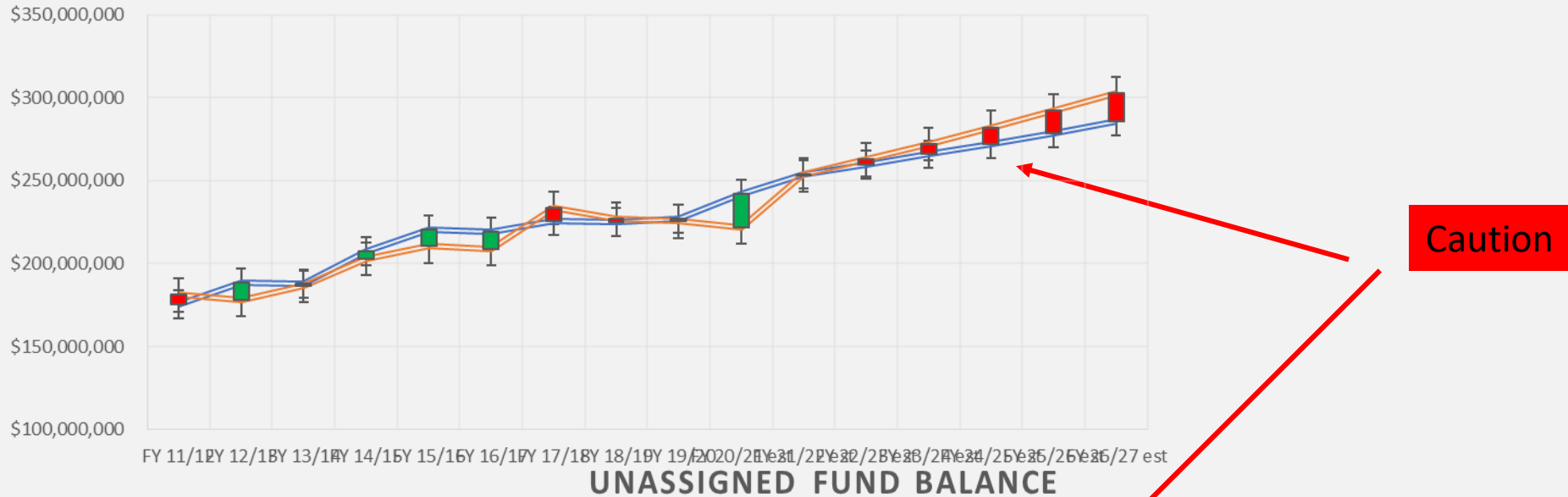


Point where UFB  
is inadequate

- Adequate shape at present due to COVID \$\$ & higher than anticipated sales tax revenue but must stop expenditure growth from outpacing revenue growth
- In addition to our stabilization account (a.k.a. “Reserve”) which equates to 20% of General Fund, we 5% of general fund as “assigned” fund balance as a “best practice”

# Overall Projection

FY 11/12	FY 12/13	FY 13/14	FY 14/15	FY 15/16	FY 16/17	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22	FY 22/23	FY 23/24	FY 24/25	FY 25/26	FY 26/27
-5	10.4	0.8	4.8	9.7	10.8	-7.8	-1.6	1.7	20.2	0	-3	-6.3	-9.8	-13.4	-17.3

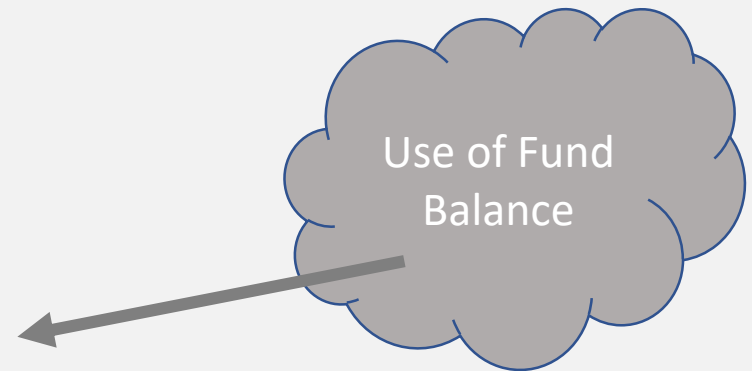




# **WHERE THE MONEY COMES FROM**

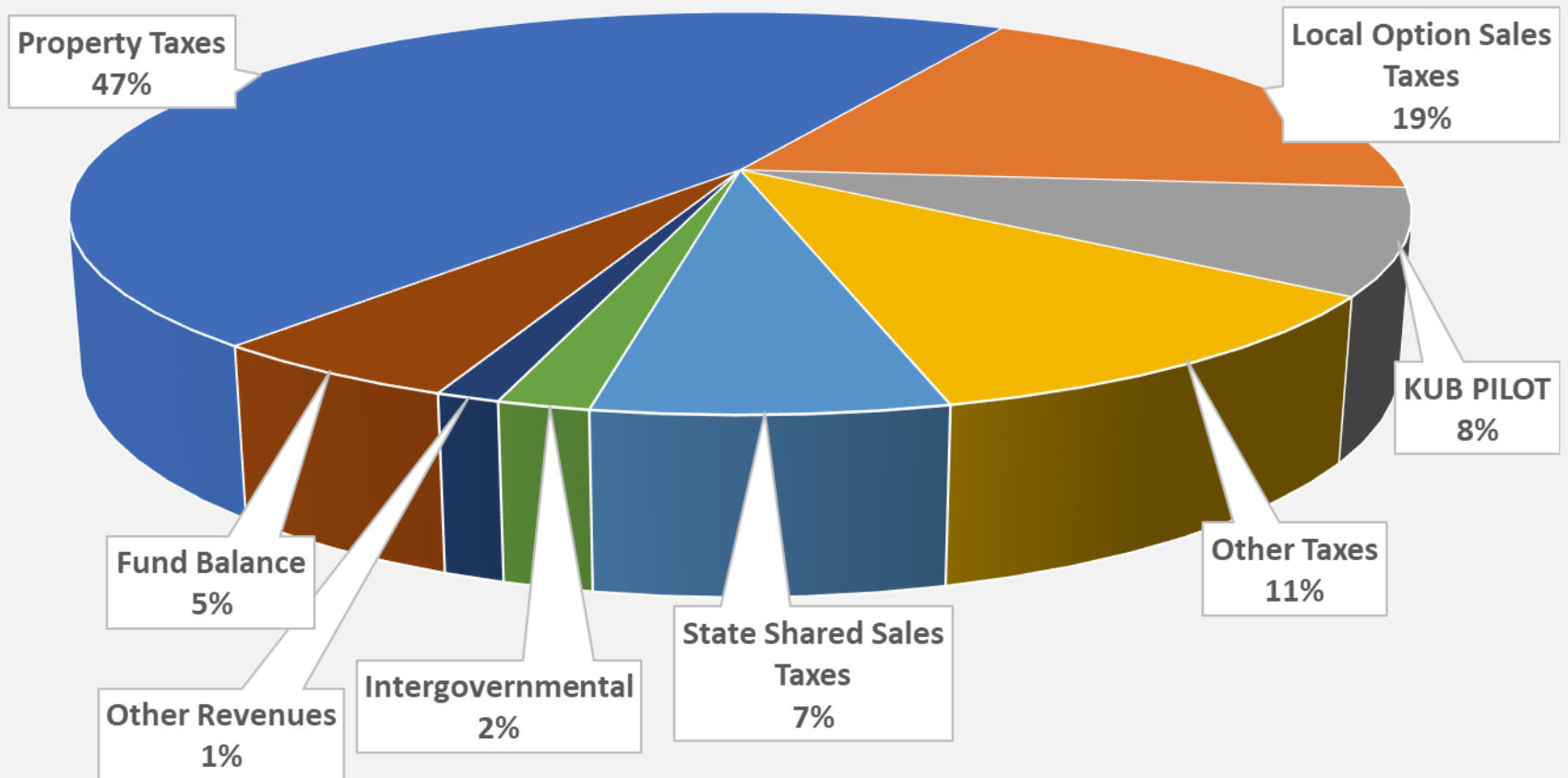
# FY 21/22 General Fund Budgeted Revenues & Sources

Estimated Revenue	Amount	%
Property Taxes	\$ 118,578,200	46.8%
Local Option Sales Taxes	\$ 47,015,000	18.5%
KUB PILOT	\$ 21,335,000	8.4%
Other Taxes	\$ 28,117,010	11.1%
State Shared Sales Taxes	\$ 17,700,000	7.0%
Intergovernmental	\$ 4,641,120	1.8%
Other Revenues	\$ 3,220,710	1.3%
Fund Balance	\$ 12,951,090	5.1%
<b>TOTAL</b>	<b>\$ 253,558,130</b>	<b>100.0%</b>



# General Fund Total Revenues

By Source



**Total Budgeted Amount = \$253,558,130**

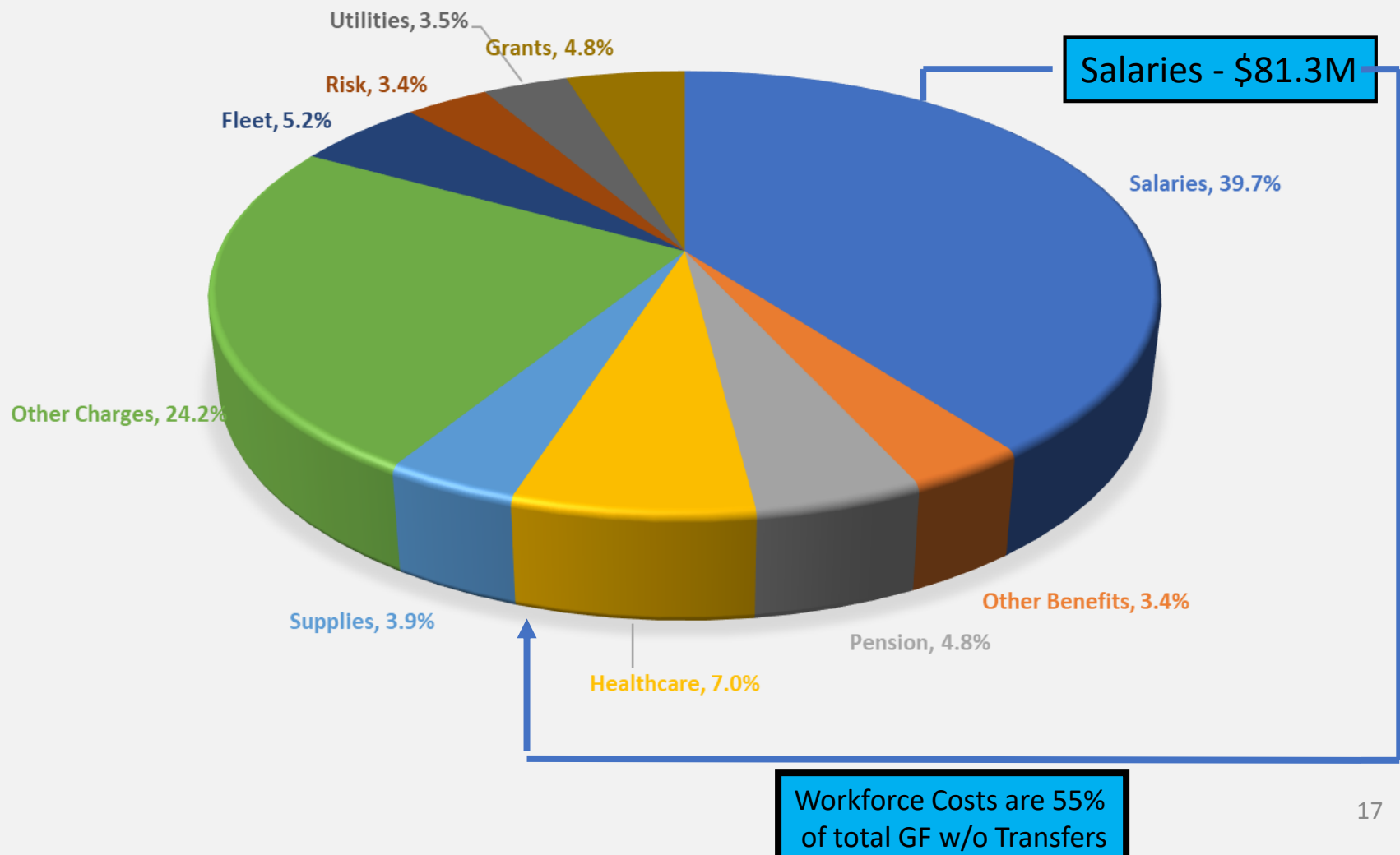


# **WHERE THE MONEY GOES**



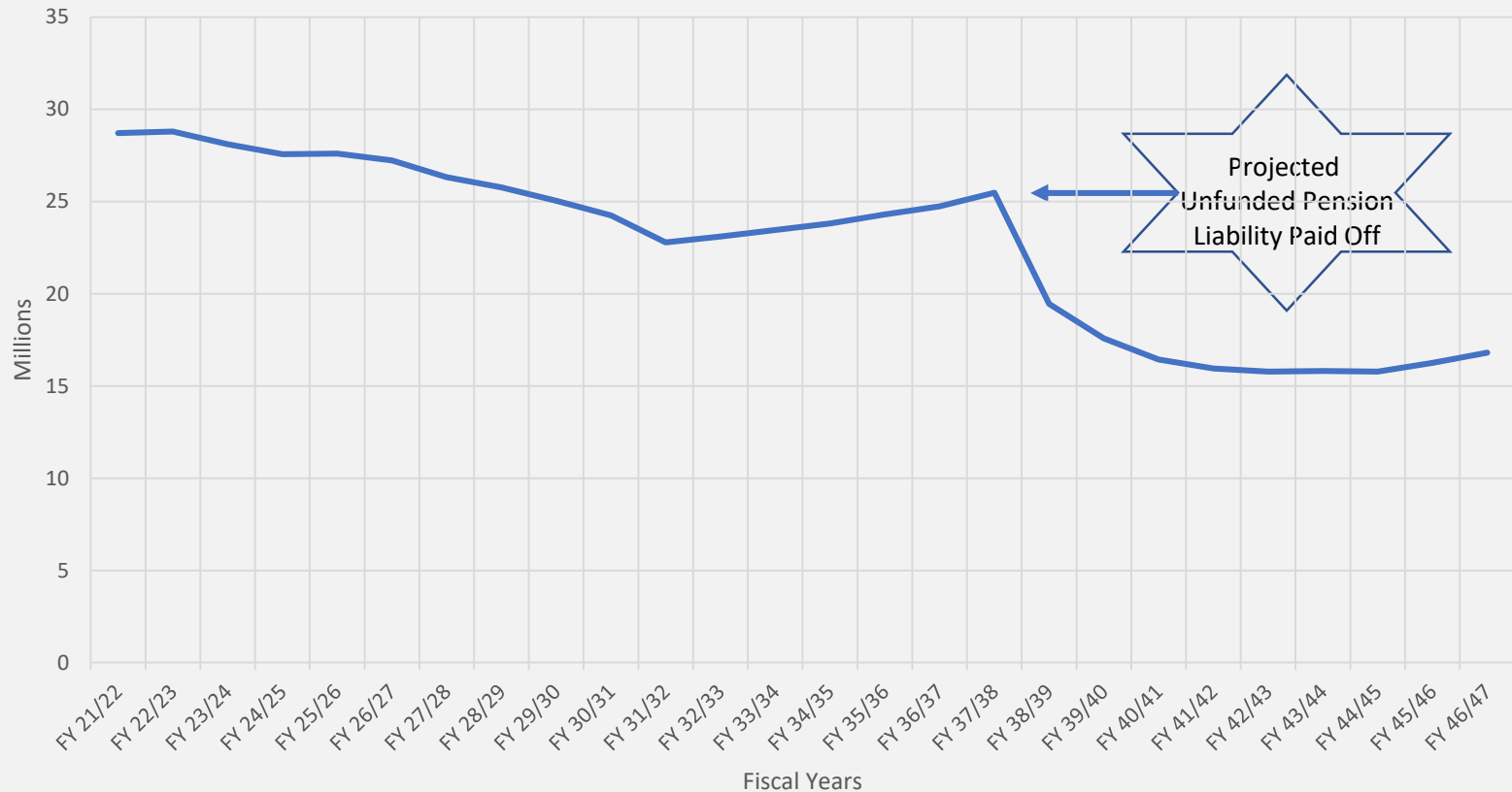
# General Fund Expenditures

(Excludes Transfers)



# Pension

# Estimated Future Pension Contributions from 7/1/2021 Valuation Report

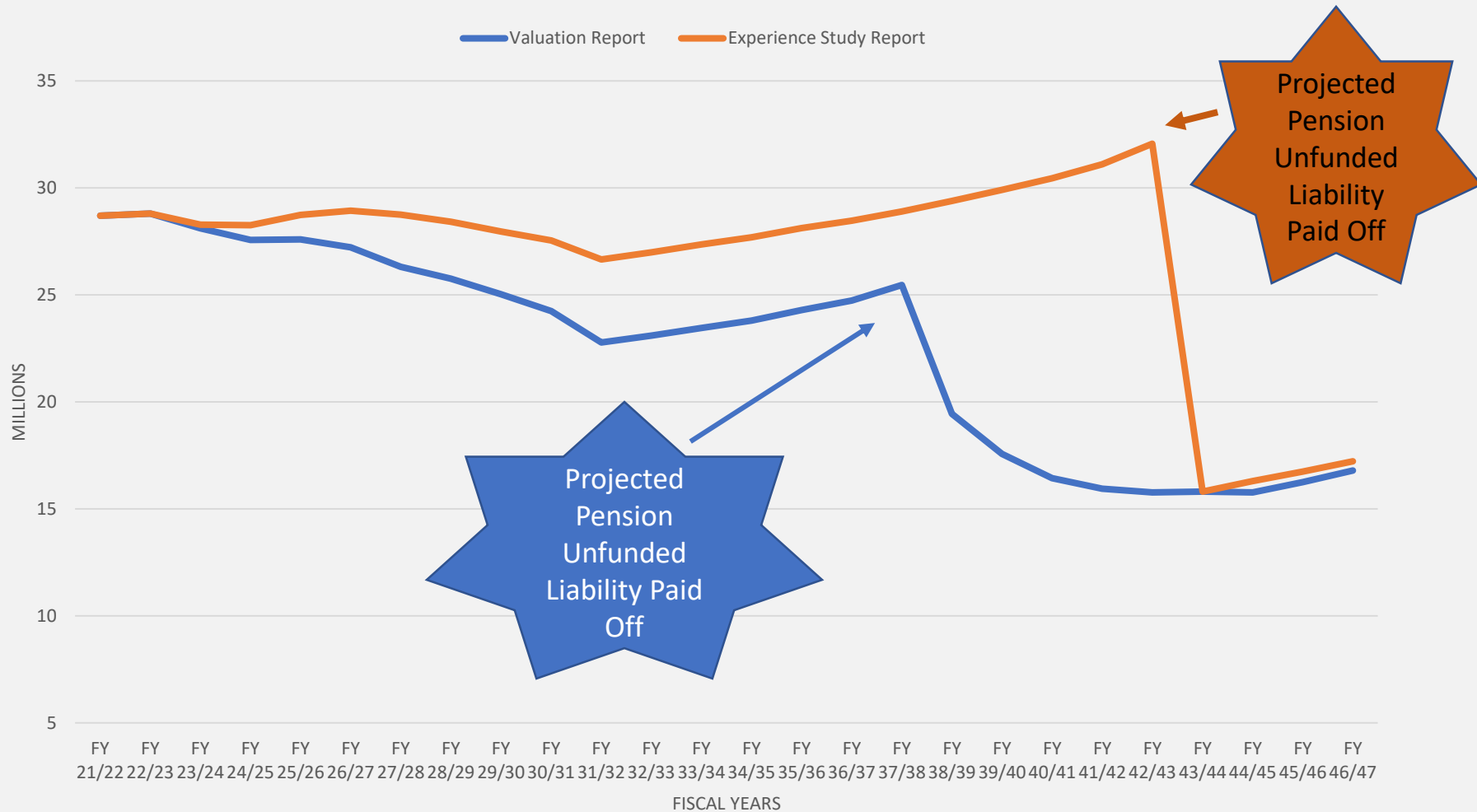


# 2021 Experience Study Results

- Mortality Improvements
- Expected Rate of Return
- Amortization of Unfunded Liability



# Estimated Future Pension Contributions After Applying Experience Study Results



# **Selected Revenue Details**

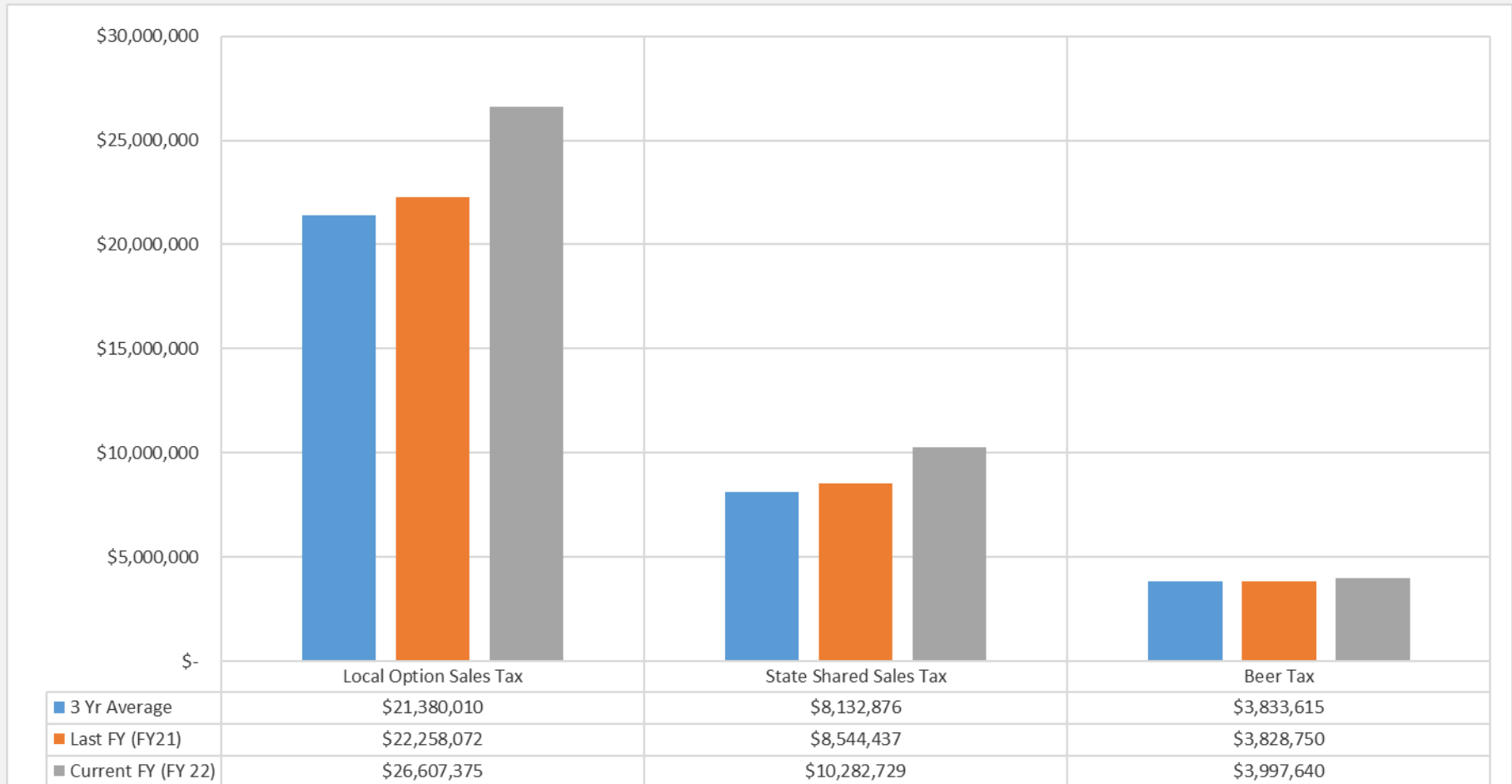
# Market Driven Sources of Revenue

(6 month snapshot)

**\$4.3M**

**\$1.8M**

**\$169K**



# Market Driven Sources of Revenue

## (6 Month Snapshot)

\$649K

\$1.4M

\$310K

(\$84K)

(\$226K)

\$60K

\$700K


\$9K





# Projection for End of FY 22 (General Fund)

- \$263,211,156: Total Projected Revenue \*
- - (\$263,862,083): Total Projected Expenditures
- = (\$650,927): Total Projected Shortfall



Will pull from Unassigned  
Fund Balance

\* Includes fund balance already appropriated for FY 22 of \$13,754,090

# Budget Considerations

- Expenditure growth rate (3.62%) outpacing revenue growth (2.41%) creating a 1.21% gap & depletes fund balance over time if not corrected
- Rapid Inflation
- Compensation Study implementation cost (\$9M - \$13M)
- Pension Unfunded Liability increases \$6.1M over 5 years
- Infrastructure needs and commitments
- Anticipated New Debt Service payments
  - \$18M - Safety Center = approx. \$1.1M in annual debt payments
  - Stadium debt = est “net” cost of \$240K/yr
- Return to normal KAT transfer from General Fund at approx. \$13M
- Growing deferred maintenance costs

# Budget Considerations

- Construction costs up 23% since start of pandemic. Forecast for 2022 is another 4.5% increase for nonresidential & 7% for residential
- Increased fuel costs
  - Each 1 cent increase at the pump = \$18K City cost increase
- Cost of Overtime (\$3.1M at mid year)
- + 2nd payment of ARPA \$21.2M to arrive in June/July 2022
- + Property tax collections remain strong
- + Sales tax revenue better than expected:
  - + Local Option Sales Tax Revenue up 21% YTD over prior year (\$4M)
  - + State shared sales tax revenue up 15% YTD over budget (\$2.4M)
- + Potential assistance with Federal infrastructure dollars

# Budget Timeline

February 11, 2022	Budget Retreat.
March 22–24, 2022	Mayor's Budget Hearings
April 22, 2022	Mayor's State of the City Address
May 3, 2022	1st reading of proposed budget & tax ordinances
May 12, 2022	Knoxville-Knox Planning Commission Hearing on CIP
May 12–13, 2022	Legislative budget hearings
May 13, 2022	Public Hearing
May 17, 2022	2nd reading of proposed budget & tax ordinances
June 15, 2022	Last possible day to approve Budget/Tax Ordinances
July 1, 2022	New Fiscal Year Begins

